



**ROCKCASTLE COUNTY FISCAL COURT**

**AUDITED FINANCIAL STATEMENTS**

**JUNE 30, 2005**

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**JONES  
&  
RITCHIE, PSC**

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**CERTIFIED PUBLIC ACCOUNTANTS**

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*2024 SHADYBROOK LANE, LEXINGTON, KY 40502 ♦ (859) 269-1949*

**Rockcastle County  
Fiscal Court Audit  
For the Year Ended June 30, 2005**

Jones & Ritchie, PSC has completed the audit of the Rockcastle County Fiscal Court for the year ended June 30, 2005. We have issued unqualified opinions on the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of Rockcastle County, Kentucky.

**Financial Condition:**

The County had net assets of \$3,307,380, which included \$779,100 of unrestricted net assets in its governmental activities as of June 30, 2005. In its business-type activities, cash and cash equivalents were \$70,467 and total net assets were \$155,818.

**Deposits:**

The deposits of the fiscal court were not fully insured and collateralized by bank securities by as much as \$336,255 on August 12, 2004.

**Report Comments:**

- 2005 – 1     The County Should Have Maintained Two Appropriations Expenditure Ledgers As Required By The Uniform System Of Accounts
- 2005 – 2     The County Should Properly Account For Encumbrances
- 2005 – 3     The Cash Balance Per The County's Books Should Agree With The Reconciled Cash Balance Per The Bank Statement On The Fourth Quarter Financial Report
- 2005 – 4     The County Judge/Executive Should Prepare A Budget For All Funds Utilized By The County
- 2005 – 5     The County Treasurer Should Resolve Unexplained Variances When Preparing Bank Reconciliations
- 2005 – 6     The Payroll Revolving Account Should Be Maintained With A Schedule Of Liabilities
- 2005 – 7     The County Treasurer Should Prepare A Bank Reconciliation For The Payroll Revolving Account
- 2005 – 8     The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits
- 2005 – 9     The County Should Comply With KRS 64.140 Which Requires That Invoices Be Paid Within 30 Working Days
- 2005 – 10    Rockcastle County Fiscal Court Lacks Adequate Segregation Of Duties
- 2005 – 11    The Jail Commissary Should Have An Interest Bearing Checking Account
- 2005 – 12    The County Should Not Have A Deficit In Fund Balance
- 2005 – 13    The County Should Budget For All Jail Fund Expenditures

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**JONES**



**RITCHIE, PSC**

**CERTIFIED PUBLIC ACCOUNTANTS**

2024 SHADYBROOK LANE, LEXINGTON, KY 40502 □ (859) 269-1949

To the People of Kentucky  
Honorable Steven L. Beshear, Governor  
Jonathan Miller, Secretary  
Finance and Administration Cabinet  
Honorable George (Buzz) Carloftis, Rockcastle County Judge/Executive  
Members of the Rockcastle County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Rockcastle County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of Rockcastle County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Rockcastle County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Rockcastle County, Kentucky, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the modified cash basis of accounting.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Rockcastle County, Kentucky's basic financial statements. The accompanying supplementary information, which consists of combining fund financial statements, is presented for purposes of additional

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(Continued)

analysis and is not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated May 5, 2008, on our consideration of Rockcastle County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying Comments and Recommendations, included herein, which discuss the following report comments:

- 2005 – 1 The County Should Have Maintained Two Appropriations Expenditure Ledgers As Required By The Uniform System Of Accounts
- 2005 – 2 The County Should Properly Account For Encumbrances
- 2005 – 3 The Cash Balance Per The County's Books Should Agree With The Reconciled Cash Balance Per The Bank Statement On The Fourth Quarter Financial Report
- 2005 – 4 The County Judge/Executive Should Prepare A Budget For All Funds Utilized By The County
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- 2005 – 10 Rockcastle County Fiscal Court Lacks Adequate Segregation Of Duties
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- 2005 – 12 The County Should Not Have A Deficit In Fund Balance
- 2005 – 13 The County Should Budget For All Jail Fund Expenditures

Respectfully submitted,

*Jones & Ritchie, PSC*

Jones & Ritchie, PSC  
Certified Public Accountants

May 5, 2008

## ROCKCASTLE COUNTY OFFICIALS

June 30, 2005

### **Fiscal Court Members:**

George (Buzz) Carloftis	County Judge/Executive
David Gibbs	Magistrate
William Denny	Magistrate
Billy R. McKinney	Magistrate
Fred Mullins, Jr.	Magistrate
Ralph Allen	Magistrate

### **Other Elected Officials:**

William D. Reynolds	County Attorney
James E. Miller	Jailer
Norma Houk	County Clerk
Darrell Doan	Sheriff
Teresa Vanzant	Circuit Court Clerk
Margaret Offutt	Property Valuation Administrator
Billy M. Dowell	Coroner

### **Appointed Personnel:**

Joseph B. Clontz	County Treasurer
Mary Jane French	Finance Officer

Note: List of officials who were in office as of June 30, 2005.

**Rockcastle County  
Management's Discussion and Analysis**

**June 30, 2005**

The financial management of Rockcastle County, Kentucky, offers readers of Rockcastle County's financial statements this narrative overview and analysis of the financial activities of Rockcastle County for the fiscal year ended June 30, 2005. This discussion and analysis is designed to assist the reader in focusing on any significant financial issues and activities, to identify any significant issues and activities, and to identify any significant changes in our financial position. We encourage readers to consider the information presented here in conjunction with other information that we have furnished in our letter of transmittal and the notes to the financial statements.

**Financial Highlights**

The Statement of Net Assets shows \$758,093 in current assets and \$6,532,817 in non-current assets. Current assets consist of cash and cash equivalents while non-current assets consist of capital assets (land, land improvements, vehicles, buildings, equipment, infrastructure, etc.), net of accumulated depreciation. Liabilities of the Fiscal Court are current liabilities due within one year of \$685,783 and non-current liabilities due in more than one year of \$3,141,929. Net assets are \$3,463,198. From year to year, changes in net assets are an indicator of the Fiscal Court's financial position.

The Statement of Activities shows governmental activity revenues of \$4,447,304 for fiscal year 2005. The majority of revenues were property tax assessments and occupational taxes.

The fund financial statements show the inflow and outflow of cash receipts and cash disbursements. The Statement of Revenues, Expenditures and Changes in Fund Balances shows that total revenues of \$4,447,304 were exceeded by total expenditures of \$4,734,484 for a net decrease in fund balance of \$287,180.

**Overview of the Financial Statements**

This management discussion and analysis is intended to serve as an introduction to Rockcastle County's basic financial statements which are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

GASB 34 requires management to include certain comparison schedules when they are available. The schedules include prior and current comparisons of general revenues by major source and program expenses by function.

***Government-wide Financial Statements***

The *government-wide financial statements* are designed to provide readers with a broad overview of Rockcastle County's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of Rockcastle County's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of the financial position of Rockcastle County.

The *Statement of Activities* presents information showing how the government's net assets changed during the fiscal year. All changes in net assets are on modified cash basis of accounting. Basis of accounting is a reference to when financial events are recorded, such as timing for recognizing revenues, expenses, and related assets and liabilities. Under the County's modified cash basis of accounting, revenues and expenses

**Rockcastle County**  
**Management's Discussion and Analysis**  
**June 30, 2005**  
(Continued)

**Overview of the Financial Statements** (Continued)

***Government-wide Financial Statements*** (Continued)

and related assets and liabilities are recorded when they result from a cash transaction, except for the recording of depreciation expense on capital assets in the government-wide financial statements for all activities and in the fund financial statements for the proprietary fund financial statements. As a result certain assets and their related revenues (such as amounts billed for services provided, but not collected), accounts payable (expenses for goods and services received but not paid) and compensated absences are not recorded.

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). Rockcastle County's governmental activities include general government, protection to persons and property, general health and sanitation, social services, recreation and culture, roads, debt service, capital projects and administration. The County has one business-type activity: the Jail Commissary Fund.

The government-wide financial statements include not only Rockcastle County (known as the primary government), but also legally separate entities, which have a significant operational or financial relationship with the County. Rockcastle County has one such entity: the Rockcastle County Public Properties Corporation, which is described as a blended component unit.

***Fund Financial Statements***

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Rockcastle County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Rockcastle County can be divided into two broad categories: *governmental funds* and *proprietary funds*.

***Governmental Funds***

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, *governmental fund* financial statements focus on current inflows and current outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's current financing requirements.

Because the focus of governmental funds is more narrow than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's current financing decisions. Both the governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

**Rockcastle County**  
**Management's Discussion and Analysis**  
**June 30, 2005**  
(Continued)

**Overview of the Financial Statements** (Continued)

***Governmental Funds*** (Continued)

Rockcastle County maintains thirteen (13) individual governmental funds. Information is presented separately for the major funds (General Fund, Road Fund, Jail Fund, Water Project Fund, Local Government Economic Development Fund, and Public Properties Corporation Fund) and is combined for the non-major funds (Local Government Economic Assistance Fund, 911 Fund, CSEPP Fund, WMD (Homeland Security) Fund, DES Fund, Forestry Fund, and Fairgrounds Fund) in the governmental fund Balance Sheet and in the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances

Rockcastle County adopts an annual appropriated budget for its governmental funds. A budgetary comparison statement has been provided for the General Fund, Road Fund, Jail Fund, Water Project Fund, and Local Government Economic Development Fund to demonstrate compliance with their budgets.

***Proprietary Funds***

Proprietary funds provide the same type of information as the business-type activities column on the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Jail Commissary Fund.

***Notes to the Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Financial Analysis of the County as a Whole**

***Net Assets***

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position.

**Rockcastle County**  
**Management's Discussion and Analysis**  
**June 30, 2005**  
 (Continued)

**Financial Analysis of the County as a Whole (Continued)**

**Comparative Financial Statements**

**Table 1**  
**Rockcastle County's Net Assets**  
**Governmental Activities**

	<u>Total</u>	
	<u>2004</u>	<u>2005</u>
<b>Assets</b>		
Current assets	\$ 1,120,933	\$ 758,093
Non-current receivables	190,552	171,774
Capital and infrastructure assets (net)	5,949,044	6,361,043
Total assets	\$ 7,260,529	\$ 7,290,910
<b>Liabilities</b>		
Current and other liabilities	\$ 581,140	\$ 685,783
Long-term liabilities	3,571,602	3,141,929
Total liabilities	\$ 4,152,742	\$ 3,827,712
<b>Net assets</b>		
Invested in capital assets, net of related debt	\$ 1,836,820	\$ 2,613,886
Restricted for grant projects	245,000	
Unrestricted	1,025,967	849,312
Total net assets	\$ 3,107,787	\$ 3,463,198

Rockcastle County  
Management's Discussion and Analysis  
June 30, 2005  
(Continued)

**Financial Analysis of the County as a Whole** (Continued)

***Comparative Financial Statements*** (Continued)

**Table 2**  
**Rockcastle County's Statement of Activities**  
**Governmental Activities**

		<b><u>2004</u></b>	<b><u>2005</u></b>
<b>Revenues:</b>			
General	\$	1,177,818	\$ 1,232,450
Charges for services		728,160	915,526
Operating grants and contributions		2,001,554	1,849,221
Capital Grants and Contributions		456,893	450,107
Total	\$	<u>4,364,425</u>	\$ <u>4,447,304</u>
<b>Expenses:</b>			
General government	\$	1,202,447	\$ 1,487,450
Protection to persons and property		1,016,614	1,095,247
General health and sanitation		136,600	680,526
Social services		27,661	2,520
Recreation and culture		28,681	21,903
Roads		415,692	549,947
Debt service		204,717	198,993
Total	\$	<u>3,032,412</u>	\$ <u>4,036,586</u>

**Financial Analysis of the County's Funds**

As noted earlier, Rockcastle County uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

**Rockcastle County**  
**Management's Discussion and Analysis**  
**June 30, 2005**  
(Continued)

**Financial Analysis of the County's Funds** (Continued)

*Governmental Funds Overview.* The focus of Rockcastle County's governmental funds is to provide information on current inflows, current outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The County has six major governmental funds as follows:

1. The **General Fund** is the chief operating fund of Rockcastle County. As of June 30, 2005, the fund balance was \$189,350, all of which was unreserved. During the year, the General Fund had revenues of \$1,383,387, expenditures of \$1,419,105, and other financing uses of \$38,701 resulting in a \$74,419 decrease in fund balance.
2. The **Road Fund** accounts for the County's construction and maintenance of its roads and bridges. The Road Fund had a negative (\$1,708) fund balance at June 30, 2005. The fund balance at the end of the previous year was \$29,005. The fiscal year 2005 expenditures for road projects were \$859,364.
3. The **Jail Fund** is used to account for the operation of the County's detention program. There was a fund balance at June 30, 2005 of \$38,538, all of which was unreserved. This represents an increase in fund balance of \$2,596 over the previous fiscal year end. The Jail Fund received \$872,261 from intergovernmental sources, which accounts for a large percentage of the Jail Fund revenue.
4. The **Water Project Fund** was established to direct funding for the constructions of water lines. The fund balance at June 30, 2005 was \$14,797, a decrease of \$143,253 from the previous fiscal year end.
5. The **Local Government Economic Development Fund** promotes growth of industry in the County. The fund balance at June 30, 2005 was \$295,494, a decrease of \$4,926 from the previous fiscal year.
6. The **Public Properties Corporation Fund** accounts for long-term debt service of the County. The fund balance at June 30, 2005 was \$227,293, an increase of \$4,434 from the previous year.

The County has seven non-major governmental funds: Local Government Economic Assistance Fund, 911 Fund, CSEPP Fund, WMD (Homeland Security Fund), DES Fund, Forestry Fund, and Fairgrounds Fund. Their total fund balances were \$95,891, a decrease of \$37,899 from the prior year. Total revenues of the non-major funds were \$435,391, total expenditures were \$443,290 and total other financing uses were \$30,000.

**General Fund Budgetary Highlights**

The County's general fund budget was amended during the fiscal year resulting in a total increase of \$324,713. Budget amendments were made to various expenditures due to surplus cash carried forward and an increase in taxes revenue. Budgeted revenues exceeded actual revenues, as amended, by \$95,447 and actual operating expenditures were \$94,454 less than the final budgeted amount.

**Rockcastle County**  
**Management's Discussion and Analysis**  
**June 30, 2005**  
(Continued)

**Capital Assets and Debt Administration**

*Capital Assets.* Rockcastle County's investment in capital assets and infrastructure assets for its governmental activities as of June 30, 2005, was \$6,361,043 (net of accumulated depreciation). This investment in capital assets and infrastructure assets includes land, buildings, improvements to land other than buildings, machinery and equipment, vehicles, and infrastructure additions.

Major capital asset events during the 2005 fiscal year included the purchase of vehicles and equipment and infrastructure additions. The construction cost of all infrastructure assets was \$361,671 for the fiscal year. Additional information on the County's assets can be found in Note 4 of this report.

**Table 3**  
**Rockcastle County's Capital Assets, Net of Accumulated Depreciation**  
**Governmental Activities**

	2004	2005
Land	\$ 410,000	\$ 410,000
Land improvements	1,147	6,265
Buildings and improvements	4,096,578	4,044,721
Office furniture, machinery, and other equipment	609,542	637,643
Vehicles	260,869	264,100
Infrastructure	569,782	912,708
Total net capital assets	\$ 5,947,918	\$ 6,275,437

*Debt Administration.* At the end of the 2005 fiscal year, Rockcastle County had total debt outstanding of \$3,827,712. Of this amount, \$685,783 is due within the next year. Additional information on the County's debt can be found in Notes 8 and 10 of this report.

**Other Matters**

The following factors are expected to have a significant effect on the County's financial position or results of operations and were taken into account in developing the 2006 fiscal year budget.

- The 2006 fiscal year adopted budget continues most services at current levels.
- Program cuts at the State and Federal level, particularly relating to the cost of housing prisoners, may have a negative impact on funding for County programs. The Fiscal Court may decide to alter the operation or funding of County operations impacted by State revenue shortfall.

**Rockcastle County**  
**Management's Discussion and Analysis**  
**June 30, 2005**  
(Continued)

**Requests for Information**

This financial report is designed to provide a general overview of Rockcastle County's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Rockcastle County Treasurer, P. O. Box 755, Mt. Vernon, Kentucky 40456.

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

**Rockcastle County**  
**Statement of Net Assets - Modified Cash Basis**

June 30, 2005

	Primary Government		
	Govern- mental Activities	Business- type Activities	Total
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 668,848	\$ 70,467	\$ 739,315
Receivables - Due within one year	18,778		18,778
Internal balances	255	(255)	
Total current assets	\$ 687,881	\$ 70,212	\$ 758,093
Non-current assets:			
Receivables - Due in more than one year	\$ 171,774	\$	\$ 171,774
Capital assets (net of accumulated depreciation) -			
Land	410,000		410,000
Land improvements	6,265		6,265
Buildings and improvements	4,044,721		4,044,721
Furniture and equipment	637,643	11,550	649,193
Vehicles	264,100	74,056	338,156
Infrastructure assets (net of accumulated depreciation)	912,708		912,708
Total non-current assets	\$ 6,447,211	\$ 85,606	\$ 6,532,817
<b>Total assets</b>	\$ 7,135,092	\$ 155,818	\$ 7,290,910
<b>Liabilities</b>			
Current liabilities:			
Financing obligations, bonds and notes payable -			
Due within one year	\$ 685,783	\$	\$ 685,783
Noncurrent liabilities:			
Financing obligations, bonds and notes payable -			
Due in more than one year	3,141,929		3,141,929
<b>Total liabilities</b>	\$ 3,827,712	\$	\$ 3,827,712
<b>Net assets</b>			
Invested in capital assets, net of related debt	\$ 2,528,280	\$ 85,606	\$ 2,613,886
Unrestricted	779,100	70,212	849,312
<b>Total net assets</b>	\$ 3,307,380	\$ 155,818	\$ 3,463,198

The accompanying notes are an integral part of the financial statements.

**Rockcastle County**  
**Statement of Activities - Modified Cash Basis**

For the Year Ended June 30, 2005

Functions/Programs Reporting Entity	Expenses	Program Revenues Received			Net (Expenses) Revenues and Changes in Net Assets		
		Charges for Services	Operating Grants and Contri- butions	Capital Grants and Contri- butions	Primary Government		
					Govern- mental Activities	Business- type Activities	Total Activities
<b>Primary government</b>							
<b>Government activities:</b>							
General government	\$ 1,487,450	\$ 591	\$ 951,839	\$ 450,107	\$ (84,913)		\$ (84,913)
Protection to persons and property	1,095,247	914,161	124,006		(57,080)		(57,080)
General health and sanitation	680,526	774			(679,752)		(679,752)
Social services	2,520				(2,520)		(2,520)
Recreation and culture	21,903				(21,903)		(21,903)
Roads	549,947		773,376		223,429		223,429
Debt service	198,993				(198,993)		(198,993)
<b>Total governmental activities</b>	<b>\$ 4,036,586</b>	<b>\$ 915,526</b>	<b>\$ 1,849,221</b>	<b>\$ 450,107</b>	<b>\$ (821,732)</b>		<b>\$ (821,732)</b>
<b>Business-type activities:</b>							
Jail Commissary	\$ 120,371	\$ 150,931				30,560	30,560
<b>Total business-type activities</b>	<b>\$ 120,371</b>	<b>\$ 150,931</b>				<b>30,560</b>	<b>\$ 30,560</b>
<b>Total primary government</b>	<b>\$ 4,156,957</b>	<b>\$ 1,066,457</b>	<b>\$ 1,849,221</b>	<b>\$ 450,107</b>	<b>\$ (821,732)</b>	<b>30,560</b>	<b>\$ (791,172)</b>

Rockcastle County  
Statement of Activities - Modified Cash Basis  
For the Year Ended June 30, 2005  
(Continued)

	Net (Expenses) Revenues and Changes in Net Assets		
	Primary Government		
	Govern- mental Activities	Business- type Activities	Total Activities
<b>General revenues:</b>			
Taxes:			
Real property taxes	\$ 406,225	\$	\$ 406,225
Motor vehicle taxes and licenses	60,184		60,184
Other taxes	558,415		558,415
In lieu of tax payments	32,383		32,383
Excess fees	7,493		7,493
Licenses and permits	12,279		12,279
Intergovernmental	311		311
Charges for services	30,731		30,731
Miscellaneous	116,504		116,504
Interest	7,925		7,925
<b>Special item:</b>			
Reduction in net assets due to assuming lease of Industrial Development Authority	(85,867)		(85,867)
<b>Total general revenues and special items</b>	<b>\$ 1,146,583</b>	<b>\$</b>	<b>\$ 1,146,583</b>
<b>Change in net assets</b>	<b>\$ 324,851</b>	<b>\$ 30,560</b>	<b>\$ 355,411</b>
<b>Net assets - Beginning</b>	<b>2,982,529</b>	<b>125,258</b>	<b>3,107,787</b>
<b>Net assets - Ending</b>	<b>\$ 3,307,380</b>	<b>\$ 155,818</b>	<b>\$ 3,463,198</b>

The accompanying notes are an integral part of the financial statements.

## FUND FINANCIAL STATEMENTS

**Rockcastle County**  
**Balance Sheet - Governmental Funds - Modified Cash Basis**

June 30, 2005

	General Fund	Road Fund	Jail Fund	Water Project Fund	Economic Development Fund	Public Properties Corporation Fund	Non- major Funds	Total Governmental Funds
<b>Assets</b>								
Cash and cash equivalents	\$ 24,463	\$ 9,459	\$ 21,179	\$ 14,797	\$ 273,923	\$ 227,293	\$ 97,734	\$ 668,848
Receivables	190,552							190,552
Due from other funds		1,843	17,359		21,571			40,773
<b>Total assets</b>	<b>\$ 215,015</b>	<b>\$ 11,302</b>	<b>\$ 38,538</b>	<b>\$ 14,797</b>	<b>\$ 295,494</b>	<b>\$ 227,293</b>	<b>\$ 97,734</b>	<b>\$ 900,173</b>
<b>Liabilities and fund balances</b>								
<b>Liabilities</b>								
Due to other funds	\$ 25,665	\$ 13,010					\$ 1,843	\$ 40,518
<b>Total liabilities</b>	<b>\$ 25,665</b>	<b>\$ 13,010</b>					<b>\$ 1,843</b>	<b>\$ 40,518</b>
<b>Fund Balances</b>								
Reserved for:								
Grant project	\$	\$	\$	\$ 14,797	\$	\$	\$	\$ 14,797
Unreserved:								
General fund	189,350							189,350
Special revenue funds		(1,708)	38,538		295,494		95,891	428,215
Debt service fund						227,293		227,293
<b>Total fund balances</b>	<b>\$ 189,350</b>	<b>\$ (1,708)</b>	<b>\$ 38,538</b>	<b>\$ 14,797</b>	<b>\$ 295,494</b>	<b>\$ 227,293</b>	<b>\$ 95,891</b>	<b>\$ 859,655</b>
<b>Total liabilities and fund balances</b>	<b>\$ 215,015</b>	<b>\$ 11,302</b>	<b>\$ 38,538</b>	<b>\$ 14,797</b>	<b>\$ 295,494</b>	<b>\$ 227,293</b>	<b>\$ 97,734</b>	<b>\$ 900,173</b>

**Reconciliation of the Balance Sheet - Governmental  
Funds to the Statement of Net Assets:**

Total fund balances	\$ 859,655
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	8,031,365
Accumulated depreciation	(1,755,928)
Liabilities in governmental activities are not reported in the funds:	
Current liabilities due within one year	(685,783)
Non-current liabilities due in more than one year	(3,141,929)
Net assets of governmental activities	<u>\$ 3,307,380</u>

The accompanying notes are an integral part of the financial statements.

**Rockcastle County**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances -**  
**Governmental Funds - Modified Cash Basis**

**For the Year Ended June 30, 2005**

	<b>General Fund</b>	<b>Road Fund</b>	<b>Jail Fund</b>	<b>Water Project Fund</b>	<b>Economic Development Fund</b>	<b>Public Properties Corporation Fund</b>	<b>Non- major Funds</b>	<b>Total Governmental Funds</b>
<b>Revenues</b>								
Taxes	\$ 827,332	\$	\$	\$	\$	\$	\$ 158,504	\$ 985,836
In lieu of tax payments	18,669	13,714						32,383
Excess fees	7,493							7,493
Licenses and permits	12,279							12,279
Intergovernmental	456,886	1,028,557	872,261	450,107			240,115	3,047,926
AOC						150,770		150,770
Charges for services	14,223	962	24,974					40,159
Miscellaneous	44,478	46,347	34,530	8	869		36,301	162,533
Interest	2,027	651	520		911	3,345	471	7,925
<b>Total revenues</b>	<b>\$ 1,383,387</b>	<b>\$ 1,090,231</b>	<b>\$ 932,285</b>	<b>\$ 450,115</b>	<b>\$ 1,780</b>	<b>\$ 154,115</b>	<b>\$ 435,391</b>	<b>\$ 4,447,304</b>
<b>Expenditures</b>								
General government	\$ 911,266	\$ 10,500	\$	\$	\$	\$	\$ 18,226	\$ 939,992
Protection to persons and property	88,706		699,742				304,450	1,092,898
General health and sanitation	74,865			596,356				671,221
Social services	2,520							2,520
Recreation and culture	13,393							43,618
Roads		895,364					30,225	921,031
Debt service	42,773	202,698	130,385	12	6,706	165,582	26,716	574,872
Administration	285,582	65,182	99,562				38,006	488,332
<b>Total expenditures</b>	<b>\$ 1,419,105</b>	<b>\$ 1,173,744</b>	<b>\$ 929,689</b>	<b>\$ 596,368</b>	<b>\$ 6,706</b>	<b>\$ 165,582</b>	<b>\$ 443,290</b>	<b>\$ 4,734,484</b>
<b>Excess (deficiency) of revenues over expenditures before other financing sources (uses)</b>	<b>\$ (35,718)</b>	<b>\$ (83,513)</b>	<b>\$ 2,596</b>	<b>\$ (146,253)</b>	<b>\$ (4,926)</b>	<b>\$ (11,467)</b>	<b>\$ (7,899)</b>	<b>\$ (287,180)</b>
<b>Other financing sources (uses)</b>								
Transfers from other funds	\$ 165,000	\$ 177,800	\$ 14,000	\$	\$ 29,000	\$ 15,901	\$ 10,000	\$ 411,701
Transfers to other funds	(203,701)	(125,000)	(14,000)		(29,000)		(40,000)	(411,701)
<b>Total other financing sources (uses)</b>	<b>\$ (38,701)</b>	<b>\$ 52,800</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$ 15,901</b>	<b>\$ (30,000)</b>	<b>\$</b>
<b>Net change in fund balances</b>	<b>\$ (74,419)</b>	<b>\$ (30,713)</b>	<b>\$ 2,596</b>	<b>\$ (146,253)</b>	<b>\$ (4,926)</b>	<b>\$ 4,434</b>	<b>\$ (37,899)</b>	<b>\$ (287,180)</b>
<b>Fund balances - Beginning</b>	<b>263,769</b>	<b>29,005</b>	<b>35,942</b>	<b>161,050</b>	<b>300,420</b>	<b>222,859</b>	<b>133,790</b>	<b>1,146,835</b>
<b>Fund balances - Ending</b>	<b>\$ 189,350</b>	<b>\$ (1,708)</b>	<b>\$ 38,538</b>	<b>\$ 14,797</b>	<b>\$ 295,494</b>	<b>\$ 227,293</b>	<b>\$ 95,891</b>	<b>\$ 859,655</b>

The accompanying notes are an integral part of the financial statements.

**Rockcastle County**  
**Reconciliation of the Statement of Revenues,**  
**Expenditures, and Changes in Fund Balances -**  
**Governmental Funds to the Statement of Activities - Modified Cash Basis**

**For the Year Ended June 30, 2005**

**Reconciliation to the Statement of Activities:**

Net change in fund balances - Total governmental funds	\$ (287,180)
Governmental funds report capital outlays as expenditures and sales of capital assets as revenues. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Capital outlay	577,075
Depreciation expense	(249,556)
Governmental funds report money borrowed as an other financing source and debt principal payments as expenditures. However, in the Statement of Activities, these transactions are excluded.	
Borrowed money (principal) repaid	370,379
Governmental funds do not report the assumption of debt. However, in the Statement of Activities, these transactions are reported as a special item.	
Debt of Industrial Development Authority assumed by the County	<u>(85,867)</u>
Change in net assets of governmental activities	<u>\$ 324,851</u>

**PROPRIETARY FUND FINANCIAL STATEMENTS**

**Rockcastle County**  
**Statement of Fund Net Assets -**  
**Proprietary Fund - Modified Cash Basis**

**June 30, 2005**

	<b>Business- type Activities - Enterprise Fund</b>
	<b>Jail Commissary Fund</b>
<b>Assets</b>	
Current assets:	
Cash and cash equivalents	\$ <u>70,467</u>
Total current assets	\$ <u>70,467</u>
Non-current assets:	
Capital assets (net of accumulated depreciation) - equipment	\$ <u>85,606</u>
Total non-current assets	\$ <u>85,606</u>
<b>Total assets</b>	<b>\$ <u>156,073</u></b>
<b>Liabilities</b>	
Current liabilities:	
Due to other funds	\$ <u>255</u>
Total current liabilities	\$ <u>255</u>
<b>Total liabilities</b>	<b>\$ <u>255</u></b>
<b>Net assets</b>	
Invested in capital assets	\$ 85,606
Unrestricted	<u>70,212</u>
<b>Total net assets</b>	<b>\$ <u><u>155,818</u></u></b>

The accompanying notes are an integral part of the financial statements.

**Rockcastle County**  
**Statement of Revenues, Expenses, and Changes in Fund Net Assets -**  
**Proprietary Fund - Modified Cash Basis**

**For the Year Ended June 30, 2005**

	<b>Business- type Activities - Enterprise Funds</b>
	<b>Jail Commissary Fund</b>
<b>Operating revenues</b>	
Commissary receipts	\$ <u>150,931</u>
<b>Total operating revenues</b>	\$ <u>150,931</u>
<b>Operating expenses</b>	
Cost of sales	\$ 99,918
Educational and recreational	1,883
Depreciation	16,321
Miscellaneous	<u>2,249</u>
<b>Total operating expenses</b>	\$ <u>120,371</u>
<b>Operating income (loss)</b>	\$ <u>30,560</u>
<b>Change in net assets</b>	\$ 30,560
<b>Total net assets - Beginning</b>	<u>125,258</u>
<b>Total net assets - Ending</b>	\$ <u><u>155,818</u></u>

The accompanying notes are an integral part of the financial statements.

**Rockcastle County**  
**Statement of Cash Flows -**  
**Proprietary Fund - Modified Cash Basis**

**For the Year Ended June 30, 2005**

	<b>Business- type Activities Enterprise Funds</b>
	<b>Jail Commissary Fund</b>
<b>Cash flows from operating activities</b>	
Receipts from customers	\$ 150,931
Cost of sales	(99,918)
Educational and recreational	(1,883)
Miscellaneous	(2,249)
	<u>          </u>
<b>Net cash provided (used) by operating activities</b>	<b>\$ 46,881</b>
<b>Cash flows from capital and related financing activities</b>	
Purchased equipment	\$ (100,801)
	<u>          </u>
<b>Net cash provided (used) by capital and related financing activities</b>	<b>\$ (100,801)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>\$ (53,920)</b>
<b>Cash and cash equivalents - Beginning</b>	<b>124,387</b>
	<u>          </u>
<b>Cash and cash equivalents - Ending</b>	<b>\$ 70,467</b>
	<u>          </u>
<b>Reconciliation of operating income to net cash provided (used)</b>	
<b>by operating activities</b>	
Operating income (loss)	\$ 30,560
Adjustments to reconcile operating income to	
net cash provided (used) by operating activities:	
Depreciation expense	16,321
	<u>          </u>
<b>Net cash provided (used) by operating activities</b>	<b>\$ 46,881</b>
	<u>          </u>

The accompanying notes are an integral part of the financial statements.

**Rockcastle County  
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Notes to the Financial Statements**

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**Rockcastle County**  
**Notes to the Financial Statements**

**For the Year Ended June 30, 2005**

**Note 1. Summary of Significant Accounting Policies**

**A. Basis of Presentation**

The County presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items, are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities. However, encumbrances are reflected on the Balance Sheet – Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the County to report capital assets and infrastructure assets. However, the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

**B. Reporting Entity**

The financial statements of Rockcastle County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the County is financially accountable or the organization's exclusion would cause the County's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

**Blended Component Units**

The following legally separate organization provides its services exclusively to the primary government, and the fiscal court is able to impose its will on the organization. The organization's balances and transactions are reported as though they are part of the county's primary government using the blended method.

**Rockcastle County Public Properties Corporation**

The Fiscal Court has the authority to appoint a voting majority of the Public Properties Corporation's (PPC) Board of Directors. The Fiscal Court also has the ability to approve or modify the PPC's budget; approve or modify rate or fee changes affecting revenues; veto, overrule, or modify decisions of the Board of Directors; or otherwise impose its will on the PPC. In addition, the Fiscal Court is financially accountable for the PPC,

**Rockcastle County**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2005**  
(Continued)

**Note 1. Summary of Significant Accounting Policies (Continued)**

**B. Reporting Entity (Continued)**

**Blended Component Units (Continued)**

**Rockcastle County Public Properties Corporation (Continued)**

legally entitled to the PPC's resources, and legally obligated for the PPC's debt. Financial information for the Public Properties Corporation is blended within Rockcastle County's financial statements.

**C. Rockcastle County Elected Officials**

Kentucky law provides for election of officials from the geographic area constituting Rockcastle County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the County, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually, and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Rockcastle County, Kentucky.

Rockcastle County has the following elected officials:

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff, and
- Property Valuation Administrator.

**D. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services.

The Statement of Net Assets presents the reporting entity's non-fiduciary assets and liabilities, with the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt – consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets – resulting from constraints placed on net assets by creditors, grantors,

**Rockcastle County**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2005**  
(Continued)

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements (Continued)**

contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets – those assets that do not meet the definition of restricted net assets or invested in capital assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

**Governmental Funds**

The primary government reports the following major governmental funds:

**General Fund** – This is the primary operating fund of the Fiscal Court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

**Road Fund** – This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

**Jail Fund** – The primary purpose of this fund is to account for the jail expenses of the County. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Governor's Office for Local Development requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

**Water Project Fund** – This fund was established to direct funding for construction of water lines. The Governor's Office for Local Development requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

**Rockcastle County**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2005**  
(Continued)

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements (Continued)**

**Governmental Funds (Continued)**

**Local Government Economic Development Fund** promotes growth of industry in the County.

**Public Properties Corporation Fund** is a legally separate entity established to provide long-term debt service for the Fiscal Court.

The primary government also has the following non-major funds: Local Government Economic Assistance Fund, 911 Fund, CSEPP Fund, WMD (Homeland Security) Fund, DES Fund, Forestry Fund, and Fairgrounds Fund.

**Special Revenue Funds**

The Road Fund, Jail Fund, Water Project Fund, Local Government Economic Development Fund, Local Government Economic Assistance Fund, 911 Fund, CSEPP Fund, WMD (Homeland Security) Fund, DES Fund, Forestry Fund, and Fairgrounds Fund are presented as special *revenue funds*. Special revenue funds account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

**Debt Service Fund**

The Public Properties Corporation Fund is presented as a *debt service fund*. Debt service funds account for the accumulation of resources for and payment of general long-term debt principal and interest.

Generally, and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount on November 30, due at face value on December 31, delinquent on January 1 following the assessment, and subject to lien and sale the third Saturday in April following the delinquency date.

**Proprietary Funds**

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Commissary Fund. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued after November 30, 1989, unless the Governmental Accounting Standards Board (GASB) specifically adopts such FASB Statements or Interpretations.

The primary government reports the following major proprietary fund:

Jail Commissary Fund – The commissary operations are authorized pursuant to KRS 441.135(1), which allows

**Rockcastle County**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2005**  
(Continued)

the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements (Continued)**

**Proprietary Funds (Continued)**

are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Commissary Fund.

**E. Deposit and Investments**

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the County to invest in the following including, but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligations permitted by KRS 41.240(4).

**F. Capital Assets**

Capital assets, which include land; land improvements; buildings and improvements; office furniture, machinery, and other equipment; vehicles; and infrastructure assets (roads and bridges) that have a useful life (based on the government's capitalization policy) of more than one reporting period, are reported in the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land is not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

**Rockcastle County**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2005**  
(Continued)

**Note 1. Summary of Significant Accounting Policies (Continued)**

**F. Capital Assets (Continued)**

The County has adopted the following capitalization thresholds and useful lives:

	<b>Capitalization Threshold</b>	<b>Useful Life Years</b>
Infrastructure	\$ 1,000	10 – 60
Land improvements	1,500	10 – 75
Buildings and improvements	1,000	10 – 60
Vehicles	1,000	2 – 10
Machinery and equipment	1,000	10 – 25

**G. Long-term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes, and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

**H. Fund Equity**

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent the fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance

**Rockcastle County**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2005**  
(Continued)

**Note 1. Summary of Significant Accounting Policies (Continued)**

**H. Fund Equity (Continued)**

has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet – Governmental Funds as part of the Fund Balance.

**I. Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget, prepared by fund, function, and activity, is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level. However, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the Public Properties Corporation Fund because bond indentures and other relevant contractual provisions require specific payments to and from this fund annually and transfers are budgeted in the other funds to comply with these requirements. In addition, a formal budget for the Jail Commissary Fund is not adopted nor is it required by the Governor's office for Local Development.

**J. Related Organizations**

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria the following are considered related organizations of Rockcastle County Fiscal Court: the Rockcastle County Ambulance Service, the Western Rockcastle County Water Association, the Eastern Rockcastle County Water Association, and the Industrial Development Authority.

**Note 2. Deposits**

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 64.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. To be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County and the depository institution, signed by both parties, which is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, and the approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

**Rockcastle County**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2005**  
(Continued)

**Note 2. Deposits (Continued)**

**Custodial Credit Risk – Deposits**

Custodial credit risk is the risk that in the event of a depository institution's failure, the County's or the component unit's deposits may not be returned. Neither the County nor the component unit have a formal deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2005 all deposits of the County were covered by FDIC insurance or a properly executed collateral security agreement. However, as of August 12, 2004, as much as \$336,255 of the deposits of the County were unsecured and uncollateralized.

**Note 3. Employee Retirement System**

The County has elected to participate in the County Employee Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous and hazardous covered employees are required to contribute 5 percent and 8 percent, respectively, of their salaries to the plan. The County's contribution rates for non-hazardous and hazardous employees were 8.48 percent and 22.08 percent, respectively.

Benefits fully vest on reaching five years of service for non-hazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

**Rockcastle County**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2005**  
(Continued)

**Note 4. Capital Assets**

**A. Governmental Activities**

Capital asset activity for governmental activities of the primary government for the year ending June 30, 2005 follows:

<b>Assets</b>	<b>Beginning Balance</b>	<b>Increase</b>	<b>Decrease</b>	<b>Ending Balance</b>
Land	\$ 410,000	\$	\$	\$ 410,000
Land improvements	1,295	5,287		6,582
Buildings and improvements	4,712,683	18,813		4,731,496
Office furniture, machinery, and other equipment	1,183,727	138,922		1,322,649
Vehicles	571,048	52,382		623,430
Infrastructure	575,537	361,671		937,208
Total capital assets	\$ 7,454,290	\$ 577,075	\$	\$ 8,031,365
Less: Accumulated depreciation	1,506,372	249,556		1,755,928
Governmental activities capital assets, net	\$ 5,947,918	\$ 327,519	\$	\$ 6,275,437

Depreciation expense charged to functions of the primary government follows:

General government	\$ 83,775
Protections to persons and property	113,903
General health and sanitation	9,305
Recreation and Culture	2,385
Roads	40,188
Total	\$ 249,556

**Rockcastle County**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2005**  
(Continued)

**Note 4. Capital Assets (Continued)**

**B. Business-type Activities**

Capital asset activity for governmental activities of the business-type activity for the year ending June 30, 2005 follows:

<b>Assets</b>	<b>Beginning Balance</b>	<b>Increase</b>	<b>Decrease</b>	<b>Ending Balance</b>
Furniture and equipment	\$ 1,206	\$ 12,639	\$	\$ 13,845
Vehicles		88,162		88,162
Total Capital Assets	\$ 1,206	\$ 100,801	\$	\$ 102,007
Less: Accumulated depreciation	80	16,321		16,401
Net capital assets June 30, 2005	\$ 1,126	\$ 84,480	\$	\$ 85,606

Depreciation expense charged to business-type activities follows:

Jail Commissary	\$ 16,321
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**Note 5. Long-term Receivables**

**A. Western Rockcastle County Water Association**

The County loaned \$364,572 to Western Rockcastle Water Association on June 1, 1994, for the purpose of constructing a waterline. Terms of the agreement stipulate a twenty-year semiannual repayment schedule at 2.95 percent interest. The balance due at June 30, 2005 is \$190,552.

<b>Fiscal Year Ended June 30</b>	<b>Scheduled Interest</b>	<b>Scheduled Principal</b>
2006	\$ 5,484	\$ 18,778
2007	4,926	19,336
2008	4,351	19,911
2009	3,759	20,503
2010	3,150	21,112
2011 - 2014	6,137	90,912

Rockcastle County  
Notes to the Financial Statements  
For the Year Ended June 30, 2005  
(Continued)

Total	\$	<u>27,807</u>	\$	<u>190,552</u>
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**Note 5. Long-term Receivables (Continued)**

**B. Changes in Long-term Receivables**

		<u>Beginning Balance</u>		<u>Additions</u>		<u>Reductions</u>		<u>Ending Balance</u>		<u>Due Within One Year</u>
Receivables	\$	<u>209,653</u>	\$		\$	<u>19,101</u>	\$	<u>190,552</u>	\$	<u>18,778</u>

**Note 6. Due from Other Funds at June 30, 2005**

A. Road Fund

Due From DES Fund	\$	<u>1,843</u>
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B. Jail Fund

Due from General Fund	\$	<u>4,094</u>
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Due from Road Fund 13,010

Due from Jail Commissary Fund		<u>255</u>
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Total \$ 17,359

C. Local Government Economic Development Fund

Due From General Fund	\$	<u>21,571</u>
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**Note 7. Due to Other Funds at June 30, 2005**

A. General Fund

Due to Jail Fund	\$	<u>4,094</u>
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Due to Local Government Economic Development Fund 21,571

Total	\$	<u>25,665</u>
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**Rockcastle County**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2005**  
(Continued)

**Note 7. Due to Other Funds at June 30, 2005 (Continued)**

**B. Road Fund**

Due to Jail Fund	\$	13,010
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**C. DES Fund**

Due to Road Fund	\$	1,843
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**D. Jail Canteen Fund**

Due to Jail Fund	\$	255
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**Note 8. Long-term Debt**

**A. Financing Obligations**

**Boiler Capital Lease**

On March 27, 2000, Rockcastle County entered into a lease agreement with the Kentucky Association of Counties Leasing Trust Program in the amount of \$28,755 to purchase a boiler. Principal and interest at variable rates is paid monthly for a period of 10 years. The principal balance outstanding at June 30, 2005 is \$15,106. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2006	\$ 730	\$ 2,958
2007	571	3,043
2008	408	3,131
2009	238	3,221
2010	69	2,753
<b>Total</b>	<b>\$ 2,016</b>	<b>\$ 15,106</b>

**Rockcastle County**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2005**  
(Continued)

**Note 8. Long-term Debt (Continued)**

**A. Financing Obligations (Continued)**

**DES Equipment Capital Lease**

On June 22, 2001, Rockcastle County entered into a lease agreement with the Kentucky Association of Counties Leasing Trust Program in the amount of \$10,076 to purchase DES Equipment. Principal and interest at a variable rate is paid monthly for a period of 5 years. The principal balance outstanding at June 30, 2005 is \$2,334. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>		<u>Scheduled Interest</u>		<u>Scheduled Principal</u>
2006	\$	72	\$	2,150
2007		1		184
Total	\$	73	\$	2,334

**Building and Fire Equipment Capital Lease**

On January 23, 2003, Rockcastle County entered into an agreement with the Kentucky Association of Counties Leasing Trust Program in the amount of \$55,000 to purchase fire equipment. Principal and interest at a rate of 3.96 percent are paid monthly for a period of 15 years. The principal balance outstanding at June 30, 2005 is \$49,546. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>		<u>Scheduled Interest</u>		<u>Scheduled Principal</u>
2006	\$	2,293	\$	2,908
2007		2,153		3,035
2008		2,006		3,168
2009		1,852		3,307
2010		1,693		3,453
2011 – 2015		5,814		19,674
2016 – 2018		1,071		14,001

**Rockcastle County**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2005**  
(Continued)

Total	\$	<u>16,882</u>	\$	<u>49,546</u>
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**Note 8. Long-term Debt (Continued)**

**A. Financing Obligations (Continued)**

Road Garage Capital Lease

On July 13, 1999, Rockcastle County entered into an agreement with the Kentucky Association of Counties Leasing Trust Program in the amount of \$90,000 to build a garage for the road department. Principal and interest at a rate of 1.90 percent are paid monthly for a period of 7 years. The principal balance outstanding at June 30, 2005 is \$15,493. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>		<u>Scheduled Interest</u>		<u>Scheduled Principal</u>
2006	\$	478	\$	14,284
2007		5		1,209
Total	\$	<u>483</u>	\$	<u>15,493</u>

Fire Truck Capital Lease

On March 22, 2002, Rockcastle County entered into an agreement with the Kentucky Association of Counties Leasing Trust Program in the amount of \$47,500 to purchase a fire truck. Principal and interest at a variable rate are paid monthly for a period of 7 years. The principal balance outstanding at June 30, 2005 is \$27,245. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>		<u>Scheduled Interest</u>		<u>Scheduled Principal</u>
2006	\$	1,207	\$	6,621
2007		875		6,954
2008		528		7,304
2009		691		6,366
Total	\$	<u>3,301</u>	\$	<u>27,245</u>

**Rockcastle County**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2005**  
(Continued)

**Note 8. Long-term Debt (Continued)**

**A. Financing Obligations (Continued)**

Jail Renovation Capital Lease

On May 22, 2001, Rockcastle County entered into an agreement with the Kentucky Association of Counties in the amount of \$89,648 for jail renovation. Principal and interest at variable rates are paid monthly for a period of 5 years. The principal outstanding at June 30, 2005 is \$ 20,763. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>		<u>Scheduled Interest</u>		<u>Scheduled Principal</u>
2006	\$	645	\$	19,125
2007		10		1,638
Total	\$	<u>655</u>	\$	<u>20,763</u>

911 System Capital Lease

On March 21, 2002, Rockcastle County entered into an agreement with the Kentucky Association of Counties Leasing Trust Program for \$179,285 to purchase a 911 system. Principal and interest at a variable rate are paid monthly for a period of 10 years. The principal outstanding at June 30, 2005 is \$ 95,179. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>		<u>Scheduled Interest</u>		<u>Scheduled Principal</u>
2006	\$	4,603	\$	18,635
2007		3,600		19,172
2008		2,574		19,724
2009		1,507		20,292
2010		426		17,356
Total	\$	<u>12,710</u>	\$	<u>95,179</u>

**Rockcastle County**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2005**  
(Continued)

**Note 8. Long-term Debt (Continued)**

**A. Financing Obligations (Continued)**

**Bridge Construction Capital Lease**

On April 24, 2002, Rockcastle County entered into an agreement with the Kentucky Association of Counties in the amount of \$480,000 for bridge construction. Principal and interest at a variable rate is paid monthly over a period of 7 years. The principal outstanding at June 30, 2005 is \$280,939. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>		<u>Scheduled Interest</u>		<u>Scheduled Principal</u>
2006	\$	12,471	\$	66,680
2007		9,134		70,033
2008		5,641		73,555
2009		1,945		70,671
Total	\$	<u>29,191</u>	\$	<u>280,939</u>

**Road and Bridge Improvements Capital Lease**

On November 19, 1998, Rockcastle County entered into a lease agreement with the Kentucky Area Development Districts Financing Trust for \$755,000 to make certain road and bridge improvements and to pay in full certain outstanding indebtedness which had also been used to make necessary road improvements. Principal is paid annually and interest, at a variable rate, is paid semi-annually over a period 10 years. The principal outstanding at June 30, 2005 is \$350,000. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>		<u>Scheduled Interest</u>		<u>Scheduled Principal</u>
2006	\$	16,088	\$	80,000
2007		11,680		85,000
2008		7,350		90,000
2009		2,494		95,000

**Rockcastle County**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2005**  
(Continued)

Total	\$	<u>37,612</u>	\$	<u>350,000</u>
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**Note 8. Long-term Debt (Continued)**

**A. Financing Obligations (Continued)**

Refinancing of Various Projects Capital Lease

On August 3, 2000, Rockcastle County entered into an agreement with the Kentucky Area Development Districts Financing Trust to borrow \$1,410,000 to permanently finance the jail renovation and to refinance a fire truck for Brindle Ridge Fire Department. Principal is paid annually and interest, at a variable rate, is paid semi-annually over a period of 25 years. The principal outstanding at June 30, 2005 is \$1,225,000. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>		<u>Scheduled Interest</u>		<u>Scheduled Principal</u>
2006	\$	74,136	\$	35,000
2007		72,308		35,000
2008		70,476		40,000
2009		68,386		40,000
2010		66,294		45,000
2011 – 2016		291,569		255,000
2017 – 2022		206,054		345,000
2023 – 2025		89,805		430,000
Total	\$	<u>939,028</u>	\$	<u>1,225,000</u>

Industrial Development Authority Lease

In January, 2005 the County began making payments on a lease between the Industrial Development Authority and Kentucky Association of Counties Leasing Trust. The balance of the loan was \$85,687 and principal and interest at 2.75% are paid monthly. The lease matures on April 20, 2013. The principal outstanding at June 30, 2005 is \$80,555. Future principal and interest requirements are:

**Rockcastle County**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2005**  
(Continued)

**Note 8. Long-term Debt (Continued)**

**A. Financing Obligations (Continued)**

Industrial Development Authority Lease (Continued)

<u>Fiscal Year Ended June 30</u>		<u>Scheduled Interest</u>		<u>Scheduled Principal</u>
2006	\$	3,794	\$	8,644
2007		3,360		9,079
2008		2,796		9,535
2009		2,073		10,015
2010		1,637		10,518
2011 - 2013		2,078		32,764
Total	\$	<u>15,738</u>	\$	<u>80,555</u>

**B. Note Payable**

Waterline for Western Rockcastle Water Association

On June 1, 1994, Rockcastle County borrowed \$364,572 from the Kentucky Infrastructure Authority to construct a waterline for the Western Rockcastle Water Association. Terms of the loan are for 40 semi-annual principal payments of varying amounts and interest of 2.95 percent to be paid semi-annually beginning December 1, 1994. The principal outstanding as of June 30, 2005 is \$190,552. Future principal and interest requirements are:

**Rockcastle County**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2005**  
(Continued)

**Note 8. Long-term Debt (Continued)**

**B. Note Payable (Continued)**

Waterline for Western Rockcastle Water Association (Continued)

<u>Fiscal Year Ended June 30</u>		<u>Scheduled Interest</u>		<u>Scheduled Principal</u>
2006	\$	5,484	\$	18,778
2007		4,926		19,336
2008		4,351		19,911
2009		3,759		20,503
2010		3,150		21,112
2011 - 2014		6,137		90,912
Total	\$	<u>27,807</u>	\$	<u>190,552</u>

**C. Refunding Revenue Bonds**

Public Properties Corporation Bonds

October 1, 1997, the Rockcastle County Public Properties Corporation issued \$1,830,000 Public Properties First Mortgage Refunding Revenue Bonds, Series 1997. The proceeds were used to pay the remaining principal, interest, principal redemption and redemption premium on the Public Properties Revenue Bonds, Series 1991, through the March 1, 2001 optional redemption date. The principal outstanding as of June 30, 2005 is \$1,175,000. Future principal and interest requirements are:

**Rockcastle County**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2005**  
(Continued)

**Note 8. Long-term Debt (Continued)**

**C. Refunding Revenue Bonds (Continued)**

Public Properties Corporation Bonds (Continued)

<u>Fiscal Year Ended June 30</u>		<u>Scheduled Interest</u>		<u>Scheduled Principal</u>
2006	\$	55,583	\$	110,000
2007		50,266		115,000
2008		44,535		125,000
2009		38,350		130,000
2010		31,790		135,000
2011 – 2014		48,888		560,000
Total	\$	<u>269,412</u>	\$	<u>1,175,000</u>

**D. Changes in Long-term Debt**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Financing obligations	\$ 2,323,436	\$ 85,867	\$ 247,143	\$ 2,162,160	\$ 257,005
Notes payable	208,788		18,236	190,552	18,778
Refunding revenue bonds	1,280,000		105,000	1,175,000	110,000
Total long-term debt	\$ <u>3,812,224</u>	\$ <u>85,867</u>	\$ <u>370,379</u>	\$ <u>3,527,712</u>	\$ <u>385,783</u>

**Note 9. Interest on Long-term and Short-term Debt**

Debt service on the Statement of Activities includes \$198,578 in interest paid on financing obligations, notes

**Rockcastle County**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2005**  
(Continued)

and bonds.

**Note 10. Short-term Debt**

On January 23, 2005, the County renewed a loan agreement with Citizen's Bank of Mt. Vernon, Kentucky for \$300,000. The proceeds were to be used for road improvement. Terms of the agreement were for a one-year loan at 5 percent interest, with principal and interest due on January 23, 2006. Interest on the loan is due annually.

**Note 11. Deferred Compensation**

All eligible employees can participate in deferred compensations plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees, and employees of local political subdivisions that have elected to participate. These deferred compensation plans permit employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or the occurrence of an unforeseeable emergency. Participation of employees in the deferred compensation plans is voluntary.

Historical trend information showing The Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in The Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone (502) 573-7925.

**Note 12. Insurance**

For the fiscal year ended June 30, 2005, Rockcastle County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for the payment of the excess losses.

**Note 13. Related Party Transactions**

The Rockcastle County Fiscal Court conducted business with Brodhead Farm Equipment, which is owned by Magistrate Billy McKinney's brother. The county purchased equipment and parts from Brodhead Farm Equipment during the fiscal year ending June 30, 2005. In addition, the fiscal court paid the County Treasurer's accounting firm to perform payroll and other services for the County. These transactions are considered to be related party transactions.

**Note 14. Contingent Liability**

On August 23, 2004, the Rockcastle County Ambulance Service borrowed \$50,000 from Kentucky Association of Counties Leasing Trust through the Rockcastle County Fiscal Court. The purpose of the loan was to purchase an ambulance. The loan is at a 4.25% rate of interest for a period of 8 years. As of June 30,

**Rockcastle County**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2005**  
(Continued)

2005, the Ambulance Service has been making all of the required payments and is in substantial compliance with the terms of the loan. As a result, this liability is not recognized on the Statement of Net Assets. The balance of the loan at June 30, 2005 is \$45,465.

**Note 15. Special Item on the Statement of Activities**

Beginning January 1, 2005, the Fiscal Court began making payments on a loan for the Industrial Development Authority through Kentucky Association of Counties Leasing Trust (KACoLT). Per KACoLT the County is ultimately responsible for the loan. Due to the Industrial Development Authority's inability to make the payments, the County intends to make the payments. The balance of the loan (\$85,867) on January 1, 2005 was recognized as a reduction in net assets on the Statement of Activities with the related liability recognized on the Statement of Net Assets.

**Note 16. Deficit in Fund Balance**

The Road Fund and the DES Fund had a deficit of \$1,708 and \$1,179, respectively, in their fund balances at June 30, 2005.

**Note 17. Subsequent Event**

As of May 5, 2008, the County is experiencing a financial shortfall for the budget period ending June 30, 2007.

REQUIRED SUPPLEMENTARY INFORMATION

**Rockcastle County**  
**Budgetary Comparison Schedules - Major Funds - Modified Cash Basis**  
**Required Supplementary Information**

**For the Year Ended June 30, 2005**

	<b>General Fund</b>			
	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	<b>Variance</b>
	<b>Original</b>	<b>Final</b>	<b>(Budgetary Basis)</b>	<b>With Final Budget Positive (Negative)</b>
<b>Revenues</b>				
Taxes	\$ 745,450	\$ 824,031	\$ 827,332	\$ 3,301
In lieu of tax payments	16,997	16,997	18,669	1,672
Excess fees	32,181	32,181	7,493	(24,688)
License and permits	12,500	13,537	12,279	(1,258)
Intergovernmental	444,810	445,021	456,886	11,865
Charges for services	12,360	12,360	14,223	1,863
Miscellaneous	3,500	128,171	44,478	(83,693)
Interest	6,100	6,536	2,027	(4,509)
<b>Total revenues</b>	<b>\$ 1,273,898</b>	<b>\$ 1,478,834</b>	<b>\$ 1,383,387</b>	<b>\$ (95,447)</b>
<b>Expenditures</b>				
General government	\$ 725,713	\$ 725,713	\$ 911,266	\$ (185,553)
Protection to persons and property	79,200	79,200	88,706	(9,506)
General health and sanitation	74,600	74,600	74,865	(265)
Social services	3,600	3,600	2,520	1,080
Recreation and culture	12,000	12,000	13,393	(1,393)
Debt service	60,584	60,584	42,773	17,811
Administration	233,149	557,862	285,582	272,280
<b>Total expenditures</b>	<b>\$ 1,188,846</b>	<b>\$ 1,513,559</b>	<b>\$ 1,419,105</b>	<b>\$ 94,454</b>
<b>Excess (deficiency) of revenues over expenditures before other financing sources (uses)</b>	<b>\$ 85,052</b>	<b>\$ (34,725)</b>	<b>\$ (35,718)</b>	<b>\$ (993)</b>
<b>Other financing sources (uses):</b>				
Borrowed money		50,000		(50,000)
Transfers from other funds	\$	\$	\$ 165,000	\$ 165,000
Transfers to other funds	(85,052)	(95,052)	(203,701)	(108,649)
<b>Total other financing sources (uses)</b>	<b>\$ (85,052)</b>	<b>\$ (45,052)</b>	<b>\$ (38,701)</b>	<b>\$ 6,351</b>
<b>Net change in fund balance</b>	<b>\$</b>	<b>\$ (79,777)</b>	<b>\$ (74,419)</b>	<b>\$ 5,358</b>
<b>Fund balance - Beginning</b>		<b>79,777</b>	<b>263,769</b>	<b>183,992</b>
<b>Fund balance - Ending</b>	<b>\$</b>	<b>\$</b>	<b>\$ 189,350</b>	<b>\$ 189,350</b>

Rockcastle County  
 Budgetary Comparison Schedules - Major Funds - Modified Cash Basis  
 Required Supplementary Information  
 For the Year Ended June 30, 2005  
 (Continued)

	Road Fund			
	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance With Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
In lieu of tax payments	\$ 14,000	\$ 14,000	\$ 13,714	\$ (286)
Intergovernmental	866,500	1,030,526	1,028,557	(1,969)
Charges for services	500	643	962	319
Miscellaneous	2,500	3,756	46,347	42,591
Interest	4,900	4,900	651	(4,249)
<b>Total revenues</b>	<b>\$ 888,400</b>	<b>\$ 1,053,825</b>	<b>\$ 1,090,231</b>	<b>\$ 36,406</b>
<b>Expenditures</b>				
General government	\$ 18,000	\$ 18,000	\$ 10,500	\$ 7,500
Roads	434,000	434,000	895,364	(461,364)
Debt service	348,766	348,766	202,698	146,068
Administration	130,634	336,231	65,182	271,049
<b>Total expenditures</b>	<b>\$ 931,400</b>	<b>\$ 1,136,997</b>	<b>\$ 1,173,744</b>	<b>\$ (36,747)</b>
<b>Excess (deficiency) of revenues over expenditures before other financing sources (uses)</b>	<b>\$ (43,000)</b>	<b>\$ (83,172)</b>	<b>\$ (83,513)</b>	<b>\$ (341)</b>
<b>Other financing sources (uses):</b>				
Transfers from other funds	\$	\$	\$ 177,800	\$ 177,800
Transfers to other funds	43,000	43,000	(125,000)	(168,000)
<b>Total other financing sources (uses)</b>	<b>\$ 43,000</b>	<b>\$ 43,000</b>	<b>\$ 52,800</b>	<b>\$ 9,800</b>
<b>Net change in fund balance</b>	<b>\$</b>	<b>\$ (40,172)</b>	<b>\$ (30,713)</b>	<b>\$ 9,459</b>
<b>Fund balance - Beginning</b>		<b>40,172</b>	<b>29,005</b>	<b>(11,167)</b>
<b>Fund balance - Ending</b>	<b>\$</b>	<b>\$</b>	<b>\$ (1,708)</b>	<b>\$ (1,708)</b>

**Rockcastle County**  
**Budgetary Comparison Schedules - Major Funds - Modified Cash Basis**  
**Required Supplementary Information**  
**For the Year Ended June 30, 2005**  
(Continued)

	<b>Jail Fund</b>			
	<b>Budgeted Amounts</b>		<b>Actual Amounts (Budgetary Basis)</b>	<b>Variance With Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues</b>				
Intergovernmental	\$ 672,413	\$ 892,493	\$ 872,261	\$ (20,232)
Charges for services	13,800	22,379	24,974	2,595
Miscellaneous	24,200	30,821	34,530	3,709
Interest	300	484	520	36
<b>Total revenues</b>	<b>\$ 710,713</b>	<b>\$ 946,177</b>	<b>\$ 932,285</b>	<b>\$ (13,892)</b>
<b>Expenditures</b>				
Protection to persons and property	\$ 520,437	\$ 520,437	\$ 699,742	\$ (179,305)
Debt service	135,500	135,500	130,385	5,115
Administration	96,828	350,875	99,562	251,313
<b>Total expenditures</b>	<b>\$ 752,765</b>	<b>\$ 1,006,812</b>	<b>\$ 929,689</b>	<b>\$ 77,123</b>
<b>Excess (deficiency) of revenues over expenditures before other financing sources (uses)</b>	<b>\$ (42,052)</b>	<b>\$ (60,635)</b>	<b>\$ 2,596</b>	<b>\$ 63,231</b>
<b>Other financing sources (uses):</b>				
Transfers from other funds	\$ 42,052	\$ 42,052	\$ 14,000	\$ (28,052)
Transfers to other funds			(14,000)	(14,000)
<b>Total other financing sources (uses)</b>	<b>\$ 42,052</b>	<b>\$ 42,052</b>	<b>\$</b>	<b>\$ (42,052)</b>
<b>Net change in fund balance</b>	<b>\$</b>	<b>\$ (18,583)</b>	<b>\$ 2,596</b>	<b>\$ 21,179</b>
<b>Fund balance - Beginning</b>		<b>18,583</b>	<b>35,942</b>	<b>17,359</b>
<b>Fund balance - Ending</b>	<b>\$</b>	<b>\$</b>	<b>\$ 38,538</b>	<b>\$ 38,538</b>

Rockcastle County  
 Budgetary Comparison Schedules - Major Funds - Modified Cash Basis  
 Required Supplementary Information  
 For the Year Ended June 30, 2005  
 (Continued)

	Water Project Fund			
	Budgeted Amounts		Actual	Variance
	Original	Final	Amounts (Budgetary Basis)	With Final Budget Positive (Negative)
<b>Revenues</b>				
Intergovernmental	\$ 725,000	\$ 725,000	\$ 450,107	\$ (274,893)
Miscellaneous			8	8
<b>Total revenues</b>	<u>\$ 725,000</u>	<u>\$ 725,000</u>	<u>\$ 450,115</u>	<u>\$ (274,885)</u>
<b>Expenditures</b>				
General health and sanitation	\$ 725,000	\$ 725,000	\$ 596,356	\$ 128,644
Debt service			12	(12)
Administration		161,050		161,050
<b>Total expenditures</b>	<u>\$ 725,000</u>	<u>\$ 886,050</u>	<u>\$ 596,368</u>	<u>\$ 289,682</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>\$</u>	<u>\$ (161,050)</u>	<u>\$ (146,253)</u>	<u>\$ 14,797</u>
<b>Net change in fund balance</b>	<u>\$</u>	<u>\$ (161,050)</u>	<u>\$ (146,253)</u>	<u>\$ 14,797</u>
<b>Fund balance - Beginning</b>	<u></u>	<u>161,050</u>	<u>161,050</u>	<u></u>
<b>Fund balance - Ending</b>	<u>\$</u>	<u>\$</u>	<u>\$ 14,797</u>	<u>\$ 14,797</u>

Rockcastle County  
 Budgetary Comparison Schedules - Major Funds - Modified Cash Basis  
 Required Supplementary Information  
 For the Year Ended June 30, 2005  
 (Continued)

	Economic Development Fund			
	Budgeted Amounts		Actual Amounts	Variance
	Original	Final	(Budgetary Basis)	With Final Budget Positive (Negative)
<b>Revenues</b>				
Intergovernmental	\$ 245,000	\$ 245,000	\$	\$ (245,000)
Miscellaneous	3,477	3,477	869	(2,608)
Interest	200	200	911	711
<b>Total revenues</b>	<u>\$ 248,677</u>	<u>\$ 248,677</u>	<u>\$ 1,780</u>	<u>\$ (246,897)</u>
<b>Expenditures</b>				
General government	\$ 254,000	\$ 254,000	\$	\$ 254,000
Debt service			6,706	(6,706)
Administration	200	28,526		28,526
<b>Total expenditures</b>	<u>\$ 254,200</u>	<u>\$ 282,526</u>	<u>\$ 6,706</u>	<u>\$ 275,820</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>\$ (5,523)</u>	<u>\$ (33,849)</u>	<u>\$ (4,926)</u>	<u>\$ 28,923</u>
<b>Other financing sources (uses):</b>				
Transfers from other funds	\$	\$	\$ 29,000	\$ 29,000
Transfers to other funds			(29,000)	(29,000)
<b>Total other financing sources (uses)</b>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
<b>Net change in fund balance</b>	<u>\$ (5,523)</u>	<u>\$ (33,849)</u>	<u>\$ (4,926)</u>	<u>\$ 28,923</u>
<b>Fund balance - Beginning</b>	<u>5,523</u>	<u>33,849</u>	<u>300,420</u>	<u>266,571</u>
<b>Fund balance - Ending</b>	<u><u>\$</u></u>	<u><u>\$</u></u>	<u><u>\$ 295,494</u></u>	<u><u>\$ 295,494</u></u>

**Rockcastle County**  
**Notes to the Required Supplementary Information**

**For the Year Ended June 30, 2005**

**Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The Fiscal Court may change the original budget by transferring appropriations at the activity level. However, the Fiscal Court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level. However, the expenditures of the Jail Fund exceeded the budgeted expenditures by \$36,747.

## OTHER SUPPLEMENTARY INFORMATION

Rockcastle County  
Combining Balance Sheet - Non-major Governmental Funds - Modified Cash Basis  
Other Supplementary Information

June 30, 2005

Special Revenue Funds								Total Non- major Funds
	Local Government Economic Assistance Fund	911 Fund	CSEPP Fund	WMD Fund	DES Fund	Forestry Fund	Fairground Fund	
<b>Assets</b>								
Cash and cash equivalents	\$ 39,358	\$ 34,641	\$ 10,860	\$ 574	\$ 664	\$ 1,874	\$ 9,763	\$ 97,734
<b>Total assets</b>	<u>\$ 39,358</u>	<u>\$ 34,641</u>	<u>\$ 10,860</u>	<u>\$ 574</u>	<u>\$ 664</u>	<u>\$ 1,874</u>	<u>\$ 9,763</u>	<u>\$ 97,734</u>
<b>Liabilities and fund balances</b>								
Liabilities								
Due to other funds	\$	\$	\$	\$	1,843	\$	\$	\$ 1,843
<b>Total liabilities</b>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>1,843</u>	<u>\$</u>	<u>\$</u>	<u>\$ 1,843</u>
Fund balances								
Unreserved:								
Special revenue funds	\$ 39,358	\$ 34,641	\$ 10,860	\$ 574	(1,179)	\$ 1,874	\$ 9,763	\$ 95,891
<b>Total fund balances</b>	<u>\$ 39,358</u>	<u>\$ 34,641</u>	<u>\$ 10,860</u>	<u>\$ 574</u>	<u>(1,179)</u>	<u>\$ 1,874</u>	<u>\$ 9,763</u>	<u>\$ 95,891</u>
<b>Total liabilities and fund balances</b>	<u>\$ 39,358</u>	<u>\$ 34,641</u>	<u>\$ 10,860</u>	<u>\$ 574</u>	<u>\$ 664</u>	<u>\$ 1,874</u>	<u>\$ 9,763</u>	<u>\$ 97,734</u>

**Rockcastle County**  
**Combining Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances - Non-major Governmental Funds - Modified Cash Basis**  
**Other Supplementary Information**

For The Year Ended June 30, 2005

	<b>Special Revenue Funds</b>							
	<b>Local Government Economic Assistance Fund</b>	<b>911 Fund</b>	<b>CSEPP Fund</b>	<b>WMD Fund</b>	<b>DES Fund</b>	<b>Forestry Fund</b>	<b>Fairground Fund</b>	<b>Total Non-major Funds</b>
<b>Revenues</b>								
Taxes	\$	\$ 156,832	\$	\$	\$	\$ 1,672	\$	\$ 158,504
Intergovernmental	97,372		126,937	5,750			10,056	240,115
Miscellaneous		22,088					14,213	36,301
Interest	196	264				11		471
<b>Total revenues</b>	<u>\$ 97,568</u>	<u>\$ 179,184</u>	<u>\$ 126,937</u>	<u>\$ 5,750</u>	<u>\$</u>	<u>\$ 1,683</u>	<u>\$ 24,269</u>	<u>\$ 435,391</u>
<b>Expenditures</b>								
General government	\$ 18,226	\$	\$	\$	\$	\$	\$	\$ 18,226
Protection to persons and property		161,059	139,052	4,339				304,450
Recreation and culture							30,225	30,225
Roads	25,667							25,667
Debt service		21,216	5,500					26,716
Administration	4,031	25,952	6,701	1,322				38,006
<b>Total expenditures</b>	<u>\$ 47,924</u>	<u>\$ 208,227</u>	<u>\$ 151,253</u>	<u>\$ 5,661</u>	<u>\$</u>	<u>\$</u>	<u>\$ 30,225</u>	<u>\$ 443,290</u>
<b>Excess (deficiency) of revenues over expenditures before other financing sources (uses)</b>	<u>\$ 49,644</u>	<u>\$ (29,043)</u>	<u>\$ (24,316)</u>	<u>\$ 89</u>	<u>\$</u>	<u>\$ 1,683</u>	<u>\$ (5,956)</u>	<u>\$ (7,899)</u>
<b>Other financing sources (uses)</b>								
Transfers from other funds	\$	\$	\$	\$	\$	\$	\$ 10,000	\$ 10,000
Transfers to other funds	(30,000)						(10,000)	(40,000)
<b>Total other financing sources (uses)</b>	<u>\$ (30,000)</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ (30,000)</u>
<b>Net change in fund balances</b>	<u>\$ 19,644</u>	<u>\$ (29,043)</u>	<u>\$ (24,316)</u>	<u>\$ 89</u>	<u>\$</u>	<u>\$ 1,683</u>	<u>\$ (5,956)</u>	<u>\$ (37,899)</u>
<b>Fund balances - Beginning</b>	<u>19,714</u>	<u>63,684</u>	<u>35,176</u>	<u>485</u>	<u>(1,179)</u>	<u>191</u>	<u>15,719</u>	<u>133,790</u>
<b>Fund balances - Ending</b>	<u>\$ 39,358</u>	<u>\$ 34,641</u>	<u>\$ 10,860</u>	<u>\$ 574</u>	<u>\$ (1,179)</u>	<u>\$ 1,874</u>	<u>\$ 9,763</u>	<u>\$ 95,891</u>

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

**JONES**

**&**

**RITCHIE, PSC**

**CERTIFIED PUBLIC ACCOUNTANTS**

2024 SHADYBROOK LANE, LEXINGTON, KY 40502 □ (859) 269-1949

Honorable Buzz Carloftis, Former Rockcastle County Judge/Executive  
Members of the Rockcastle County Fiscal Court

**Report on Internal Control over Financial Reporting and on Compliance  
and Other Matters Based on an Audit of the Financial Statements  
Performed in Accordance with Government Auditing Standards**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Rockcastle County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements, as listed in the table of contents, and have issued our report thereon dated May 5, 2008. Rockcastle County prepares its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered Rockcastle County's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Rockcastle County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Comments and Recommendations.

- 2005 – 3      The Cash Balance Per The County's Books Should Agree With The Reconciled Cash Balance Per The Bank On The Fourth Quarter Financial Report
- 2005 – 5      The County Treasurer Should Resolve Unexplained Variances When Preparing Bank Reconciliations
- 2005 – 6      The Payroll Revolving Account Should Be Maintained With A Schedule Of Liabilities
- 2005 – 7      The County Treasurer Should Prepare A Bank Reconciliation For The Payroll Revolving Account
- 2005 – 10     The Rockcastle County Fiscal Court Lacks Adequate Segregation Of Duties

Honorable Buzz Carloftis, Former Rockcastle County Judge/Executive  
Members of the Rockcastle County Fiscal Court  
Report on Internal Control over Financial Reporting  
and on Compliance and Other Matters Based on  
an Audit of the Financial Statements Performed  
in Accordance with Government Auditing Standards  
(Continued)

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable conditions described above to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rockcastle County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed certain instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying Comments and Recommendations as follows:

- 2005 – 1      The County Should Have Maintained Two Appropriation Expenditure Ledgers As Required By The Uniform System of Accounts
- 2005 – 2      The County Should Properly Account For Encumbrances
- 2005 – 4      The County Judge/Executive Should Prepare A Budget For All Funds Utilized By The County
- 2005 – 8      The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits
- 2005 – 9      The County Should Comply With KRS 65.140 Which Requires That Invoices Be Paid Within 30 Working Days
- 2005 – 11     The Jail Commissary Should Have An Interest Bearing Checking Account
- 2005 – 12     The County Should Not Have A Deficit In Fund Balance
- 2005 – 13     The County Should Budget For All Jail Fund Expenditures

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

*Jones & Ritchie, PSC*

Jones & Ritchie, PSC  
Certified Public Accountants

May 5, 2008

**Rockcastle County  
Comments and Recommendations**

**For the Year Ended June 30, 2005**

Noncompliances and Reportable Conditions:

**Reference Number 2005 – 1**

The County Should Have Maintained Two Appropriation Expenditure Ledgers As Required By The Uniform System Of Accounts

The county did not maintain two appropriation expenditure ledgers as required by the Uniform System of Accounts, which is stipulated by the Governor's Office for Local Development. The Uniform System of Accounts states, "The appropriation expenditure ledgers are to be maintained independently by the office of the county judge/executive and the county treasurer. Reconciliations should be made at least monthly in order to insure accuracy. Counties utilizing computers to maintain books of accounts in the treasurer's office must maintain an appropriations expenditure ledger within the office of the county judge/executive independently from the computer system in the treasurer's office." There was only one appropriation ledger maintained by the county. The county treasurer maintained the Jail Fund section of the appropriation expenditure ledger and the finance officer maintained all other funds. The two sections were then combined into one complete appropriation expenditure ledger. Errors on the Fourth Quarter Financial Report could have been found and corrected by maintaining dual ledgers and reconciling them at least monthly as required by the Uniform System of Accounts. We recommend that the county comply with the Uniform System of Accounts by maintaining two appropriation expenditure ledgers.

*Response: Currently the appropriation expenditure ledgers are maintained on two separate systems by the Finance officer and the County Treasurer and are reconciled quarterly.*

**Reference Number 2005 – 2**

The County Should Properly Account For Encumbrances

The county did not properly account for encumbrances as required by the Governor's Office for Local Development (GOLD). The county did not include encumbrances on the face of the Fourth Quarter Financial Report. We recommend that the county properly maintain encumbrances as required by the Governor's Office for Local Development. The "Instructional Guide for County Budget Preparation & State Local Finance Officer Policy Manual" states, "Enter the total dollar amount of unpaid purchase orders from the purchase order journal." We recommend that the county maintain a purchase order journal in the future and use the amounts from the journal as the encumbrances listed on the quarterly report.

*Response: The list of encumbrances is currently being maintained and will be included on future quarterly reports.*

**Reference Number 2005 – 3**

The Cash Balance Per The County's Books Should Agree With The Reconciled Cash Balance Per The Bank Statement On The Fourth Quarter Financial Report

The cash balance per the county's books as stated on the Fourth Quarter Financial Report does not agree with the reconciled cash balance per the bank as stated on the Fourth Quarter Financial Report. These amounts should agree with each other. The difference results from either cash receipts or cash expenditures not being properly posted on the county's books. The General Fund differed by \$ 2,776, the Road Fund

**Rockcastle County  
Comments and Recommendations  
For the Year Ended June 30, 2005  
(Continued)**

**Reference Number 2005 – 3 (Continued)**

The Cash Balance Per The County's Books Should Agree With The Reconciled Cash Balance Per The Bank Statement On The Fourth Quarter Financial Report (Continued)

differed by \$800 and the Jail Fund differed by \$305. We recommend that, in the future, the county treasurer investigate and resolve any differences between county's book balance and the reconciled bank balance.

*Response: Agree. This will be corrected for future years.*

**Reference Number 2005 – 4**

The County Judge/Executive Should Prepare A Budget For All Funds Utilized By The County

The county judge/executive did not budget for the Homeland Security (Weapons of Mass Destruction) Fund for the year ending June 30, 2004. KRS 68.240 (1) states, "The county judge/executive shall annually prepare a proposed budget for the expenditure of all funds, including those from state and federal sources, which are to be expended by the fiscal court in the next fiscal year. The proposed budget shall be classified into budget units as outlined in section (2) of this section. In addition to preparing a reasonable estimate of the funds actually needed for both general and specific purposes, the county judge/executive shall prepare an estimated statement of receipts to be anticipated from local, state, and federal sources. The county judge/executive shall submit the proposed budget and estimate of receipts to the fiscal court by May 1 of each year." We recommend that the county judge/executive prepare a budget for all funds to be in compliance with KRS 68.240 (1).

*Response: This will be corrected.*

**Reference Number 2005 – 5**

The County Treasurer Should Resolve Unexplained Variances When Preparing Bank Reconciliations

We found during the review of bank reconciliations that sometimes there were variances between the reconciled bank balances and the balance per the county's records. These variances were not investigated and resolved. This resulted in the need for auditors to make adjustments to the county's financial statement in order for the cash balance reported in the audit report to agree with the reconciled bank cash balance. We recommend that the county treasurer investigate and resolve all variances when preparing bank reconciliations.

*Response: This has been corrected and is currently being done.*

**Reference Number 2005 – 6**

The Payroll Revolving Account Should Be Maintained With A Schedule Of Liabilities

The Payroll Revolving Account should have a balance of \$500, the amount that was deposited when the account was originally opened. The county did not maintain a schedule of liabilities for the account at June 30, 2004 and, therefore, we could not determine whether or not there was a surplus or deficit in the account at June 30, 2005. We recommend that the county treasurer maintain a schedule of liabilities needed to make a determination of whether the balance in the payroll account is sufficient.

**Rockcastle County  
Comments and Recommendations  
For the Year Ended June 30, 2005  
(Continued)**

**Reference Number 2005 – 6 (Continued)**

The Payroll Revolving Account Should Be Maintained With A Schedule Of Liabilities (Continued)

*Response: Liability items are payroll withholdings and the county's share of taxes. This information is available and a list will be prepared in the future.*

**Reference Number 2005 – 7**

The County Treasurer Should Prepare A Bank Reconciliation For The Payroll Revolving Account

Our review of the county's payroll revolving account revealed that the county treasurer did not reconcile the bank balance back to the book balance for the account. The county treasurer should prepare bank reconciliations for all bank accounts of the county. We recommend that adequate records be maintained to account for all payroll related items and that the bank balance be reconciled back to these records.

*Response: Agree. These reconciliations have been done periodically in the past, but will always be done in the future.*

**Reference Number 2005 – 8**

The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits

On July 10, 2003, \$336,255 of the county's deposits of public funds were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), financial institutions maintaining deposits of public funds are required to pledge securities or provide surety bonds as collateral to secure these deposits if the amounts on deposit exceed the \$100,000 amount of insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC). The county should require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times. We also recommend the county to enter into a written agreement with the depository institution to secure the county's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. paragraph 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

*Response: The County Treasurer will check on this and get it corrected if it has not already been done.*

**Rockcastle County**  
**Comments and Recommendations**  
**For the Year Ended June 30, 2005**  
(Continued)

**Reference Number 2005 – 9**

The County Should Comply With KRS 65.140, Which Requires That Invoices Be Paid Within 30 Working Days

During the course of our audit, we found that numerous invoices were not paid in a timely manner. KRS 65.140 states that all bills for goods or services shall be paid within thirty (30) working days of receipt of vendor's invoice except that when payment is delayed because the purchaser has made a written disapproval of improper invoicing by the vendor or by the vendor's subcontractor. We recommend that the county comply with KRS 65.140 by paying invoices within thirty (30) working days.

*Response: The County tries to pay on time but is not always able to do so because of the timing difference between when money is expected to be received and when it is actually received.*

**Reference Number 2005 – 10**

The Rockcastle County Fiscal Court Lacks Adequate Segregation Of Duties

The Rockcastle County Fiscal Court lacks an adequate segregation of duties. We recommend that a qualified office employee independent of check writing and posting duties, match purchase orders to checks and invoices. Having this person initial the purchase orders and invoices and by making sure these invoices are marked paid can be shown as evidence of segregation of duties. Also, we recommend that the person opening mail keep a listing of all checks received for that day, detailing the date received, the check amount, who it is from, and what the check is for. This will help segregate the duties of the treasurer. To have better internal controls, the best practice is to keep the receipt of cash, the disbursement of cash, and the posting of cash to the ledgers delegated to separate individuals.

*Response: Lack of sufficient personnel and lack of money to add additional personnel are constraints but the county is making an effort to segregate duties.*

**Reference Number 2005 – 11**

The Jail Commissary Should Have An Interest Bearing Checking Account

The checking account for the jail Commissary is not currently earning interest. According to KRS 66.840(1), the county may invest or reinvest money subject to its control. We recommend the county jailer comply with this statute by depositing all monies into an interest bearing checking account.

*Response: This has been done for subsequent years.*

**Reference Number 2005 – 12**

The County Should Not Have A Deficit In Fund Balance

Two of the funds at June 30, 2005 had negative fund balances. The Road Fund and the DES Fund had negative fund balances of \$1,708 and \$1,179, respectively. County funds should not have a negative balance. We recommend that the County take steps to ensure that this does not happen in the future.

*Response: We will review and correct this situation.*

**Rockcastle County**  
**Comments and Recommendations**  
**For the Year Ended June 30, 2005**  
(Continued)

**Reference Number 2005 – 13**

The County Should Budget For All Jail Fund Expenditures

According to KRS 68.300 expenditures should not exceed the amounts budgeted. As of June 30, 2005 the Jail Fund expenditures exceeded the amounts budgeted by \$36,747.

*Response: We will review and correct this situation.*

## APPENDIX A

**Certification of Compliance  
Local Government Economic Assistance Program  
Rockcastle County, Kentucky**

**For The Fiscal Year Ended June 30, 2005**

The Rockcastle County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

\_\_\_\_\_  
County Judge/Executive

\_\_\_\_\_  
County Treasurer